Global Emerging Markets Risk Database

Credit Risks and Opportunities for Emerging Market Investments:

Insights from MDB/DFI Private Sector Lending

Agenda

- Introduction
- What is GEMs
- Why GEMs Matters to Investors
- Key Insights from GEMs Data
- Regional & Sectoral Insights
- GEMs Core Findings
- Conclusion

GEMs—Redefining Risk in Emerging Markets

OPPORTUNITY

EMDEs account for **60% of global GDP growth.**

CHALLENGE

Bridging the gap between perceived and actual risks.

PROPOSITION

MDB/DFI experience through the lens of the **Global Emerging Markets Risk Database (GEMs).**

PERCEPTION

EMDEs are often seen as high-risk investment destinations.

REALITY

EMDEs offer significant opportunities for diversification and competitive returns.

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Bridging the Gap Between Perception and Reality

Investors often view EMDEs as excessively risky, relying on limited data and sovereign credit ratings that overstate private sector risk.

GEMs Value Proposition

DATA-DRIVEN INSIGHTS
Robust statistics on defaults and recoveries grounded in over three decades of MDB/DFI lending.

RISK REASSESSMENT
EMDE corporates show default rates comparable to high-yield firms in advanced economies.

DIVERSIFICATION BENEFITS
Low correlation with advanced economy assets enhances portfolio resilience in global downturns.

EMPOWERING INVESTORS
Experience of MDB/DFIs dispels misconceptions, highlights EMDE resilience, and supports data-backed allocation decisions.

GEMs—A Data-Driven Resource for Investors

GEMs is a consortium of 29 multilateral development bank and development finance institutions pooling decades of credit risk data.

GEMs covers 15,507 loans to 10,476 private counterparties across all sectors, and 169 countries.

GEMs tracks default and recovery rates for loans in EMDEs over the past three to four decades.

GEMs' depth:

- 41 years for sovereign and sovereign-guaranteed lending.
- 31 years for private and public lending.

GEMs provides a common risk methodology to ensure consistency and reliability of data.

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What the Numbers Tell Us

DEFAULT RATES

3.5%
Average (1994–2024)

Benchmarked to

3.2%
S&P "B" rated firms

3.8%
Moody's "B3" rated firms

What the Numbers Tell Us

RECOVERY RATES

73%
Average (1994–2024)

The highest recovery rates

76% Low-Income Countries

78% Sub-Saharan Africa

Benchmarked to →

70% Moody's Global Loans

59% Moody's Global Bonds

38% JPMorgan EM Bonds

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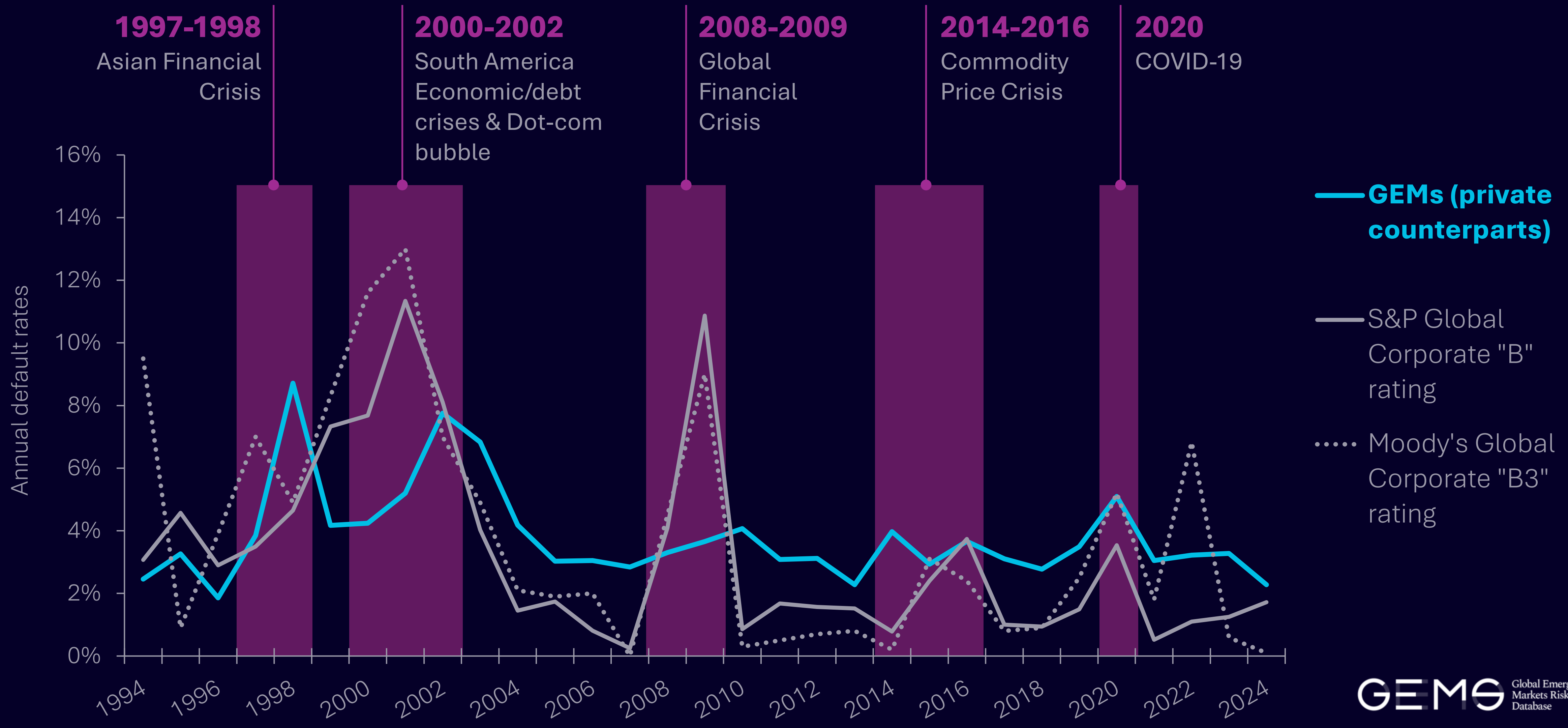
Resilience During Crises

GEMs versus Comparators



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Piercing the Sovereign Ceiling

Sovereign ratings overstate default performance

- Corporate default rates are far below what sovereign ratings imply. In low-income countries, MDB/DFI portfolio firms show average default rates of just 7%, versus the 31% probability implied by sovereign ratings.
- Many private firms remain resilient and creditworthy even when their sovereigns are under stress, highlighting a disconnect between sovereign risk signals and actual corporate performance.

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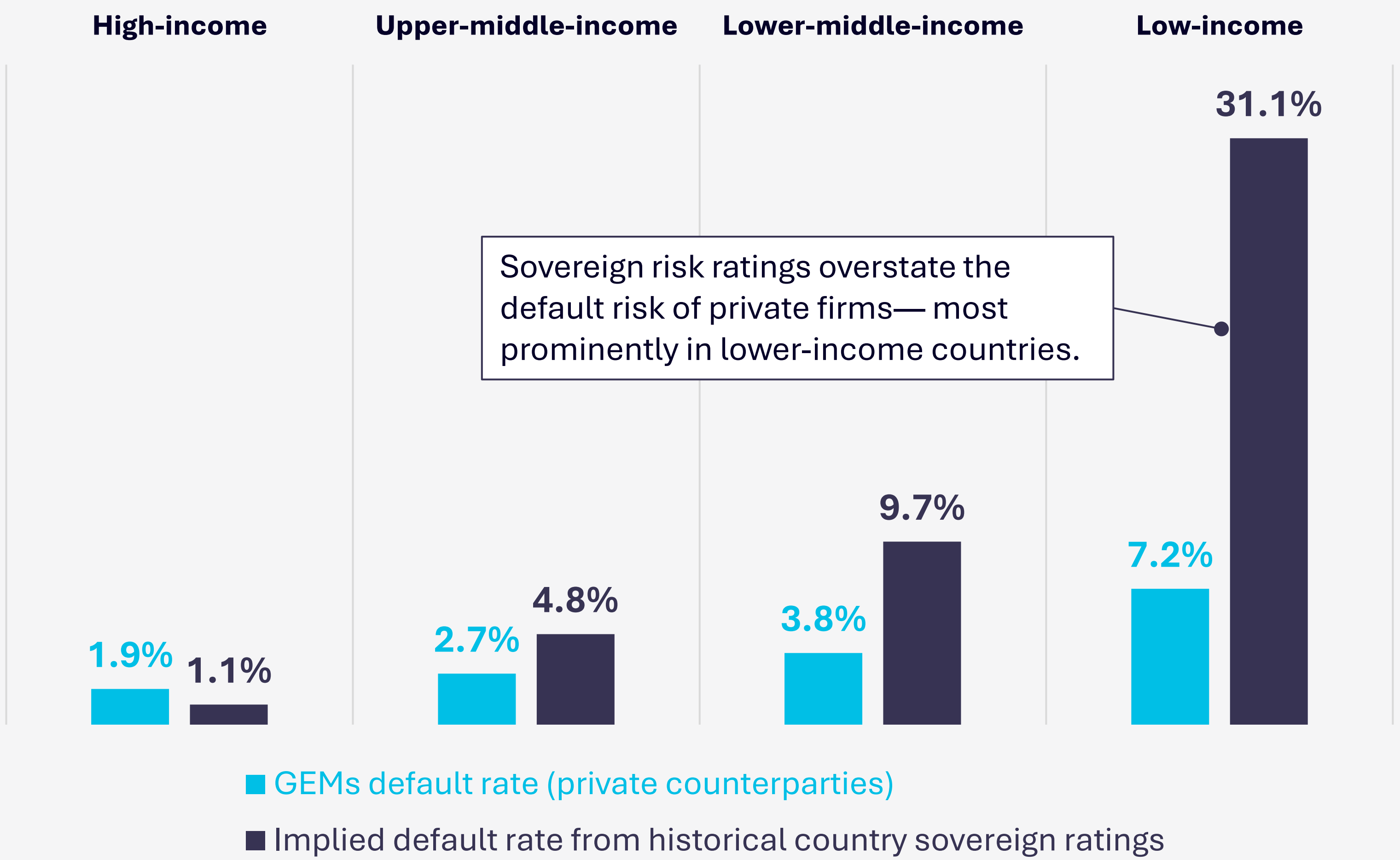
AVERAGE DEFAULT RATE VERSUS COUNTRY RATINGS (1994-2024)



Note: Historical default rates implied in country sovereign ratings are from Standard & Poor's (2024): "Default, Transition, and Recovery: 2023 Annual Global Sovereign Default and Rating Transition Study. March 2024".

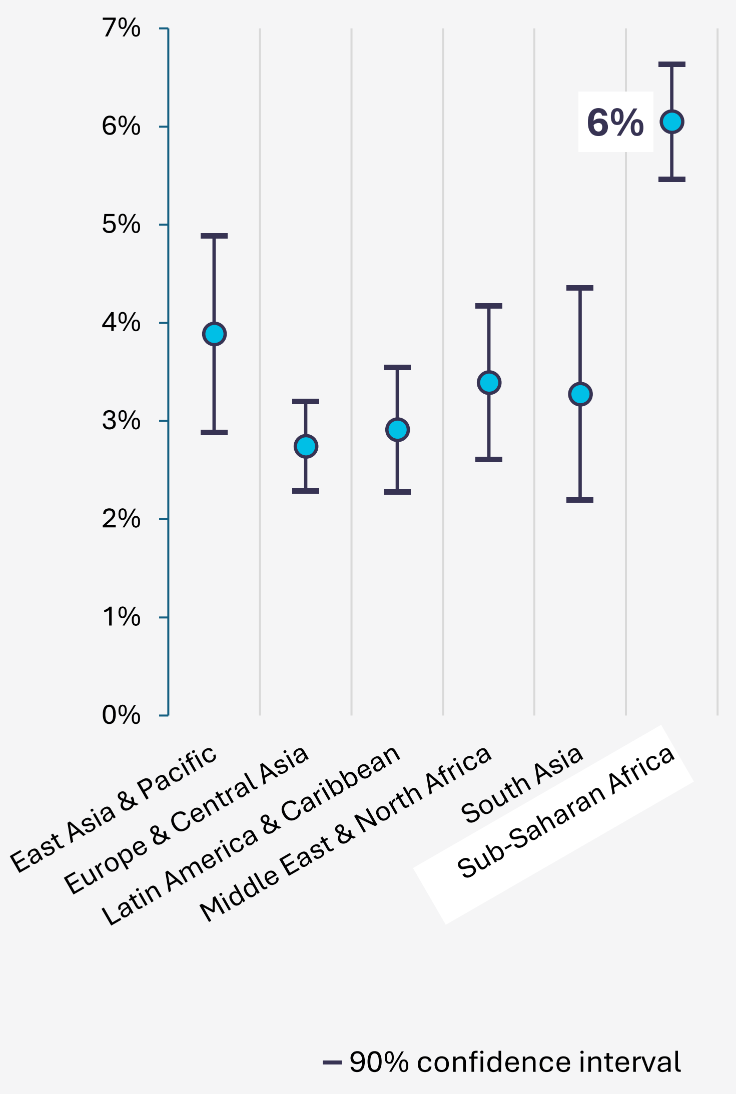
Regional Insights

Where are the opportunities?

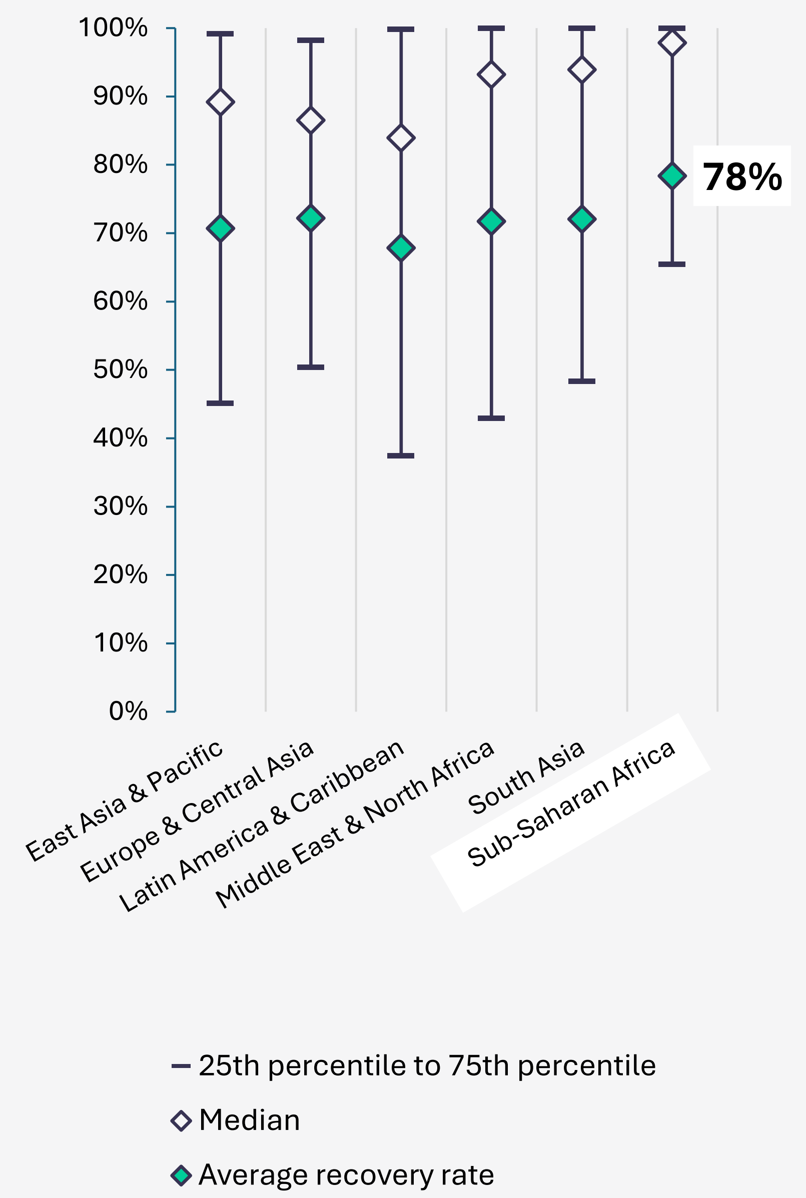
Sub-Saharan Africa:
Highest default rates (**6%**) but also the highest recovery rates (**78%**).

Low-income countries:
Recovery rate **76%**, highest of all income group.

ANNUAL DEFAULT RATES



ANNUAL RECOVERY RATES



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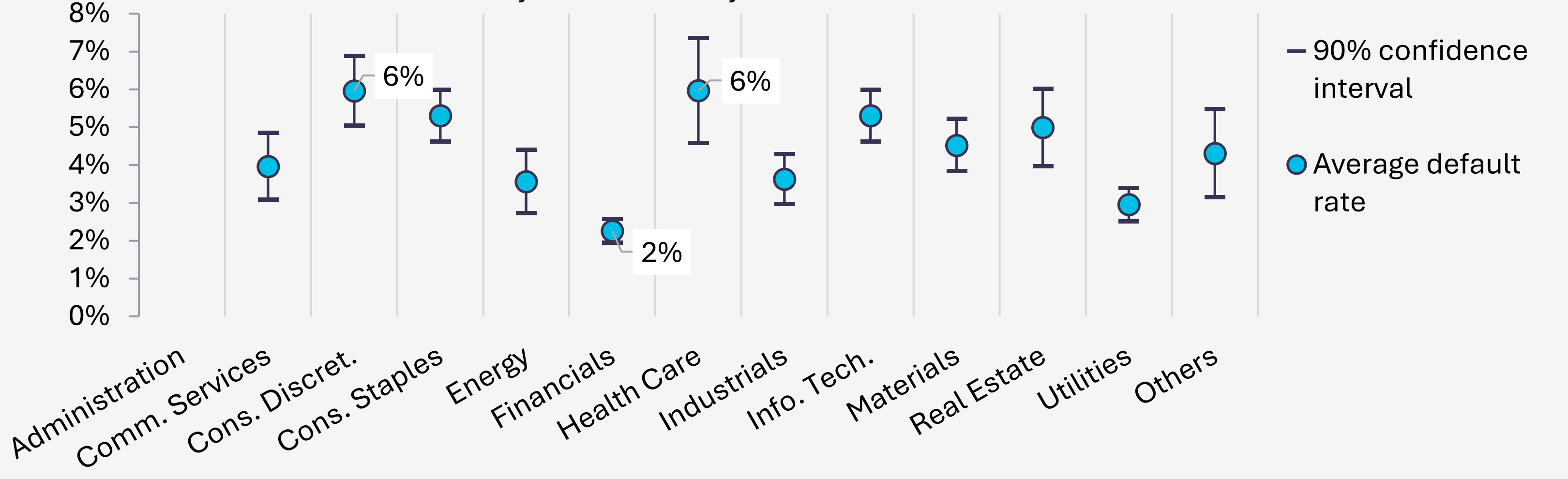
Sectoral Insights

Where are the opportunities?

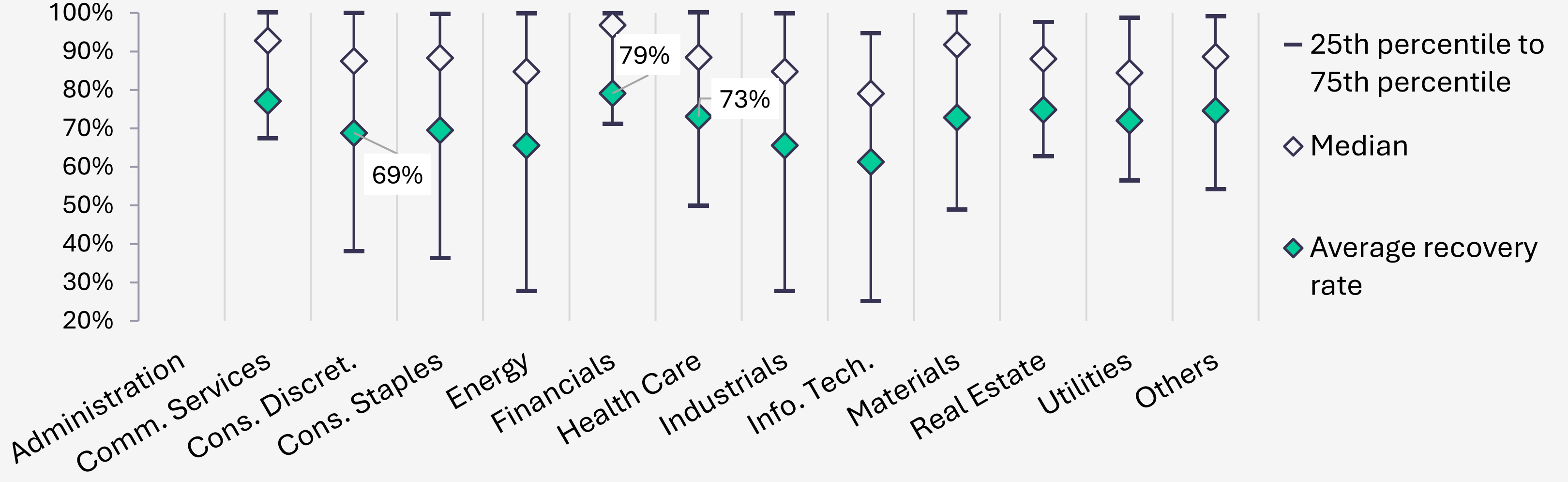
Financial Sector:
Lowest defaults (**2%**) and highest recoveries (**79%**).

Consumer discretionary and health care have highest defaults (**6%**), but recoveries relatively strong in the **70%** range.

DEFAULT RATES
by Global Industry Classification Standard



RECOVERY RATES
by Global Industry Classification Standard



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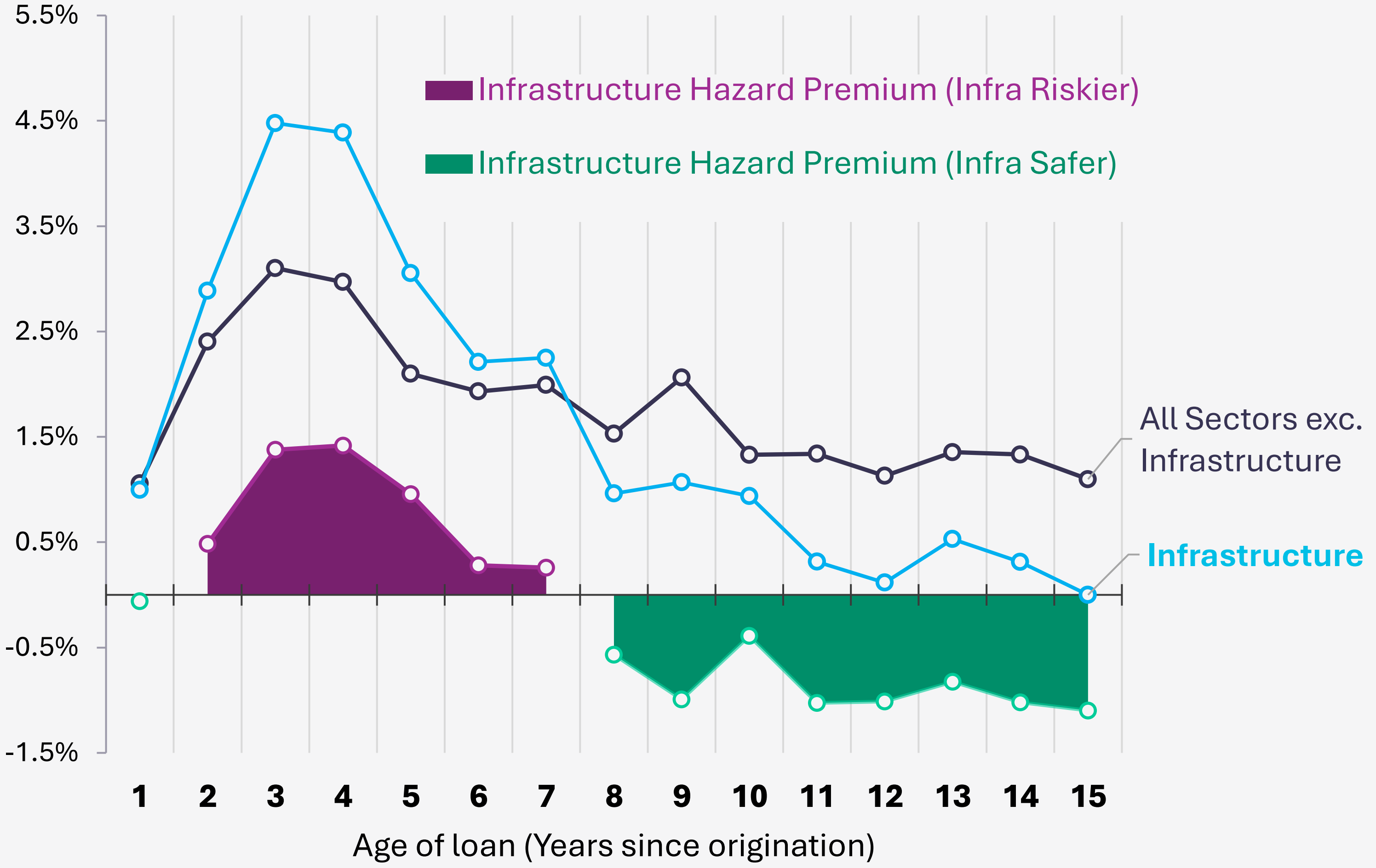
Infrastructure

Front-Loaded Risk, Back-Loaded Stability

Infrastructure loans exhibit higher default risk than other sectors in the early years (e.g., during construction, permitting, and ramp-up), but **become safer than other sectors once projects are established**. GEMs data confirm this pattern, in line with Moody's and S&P findings that defaults in infrastructure project financing are front-loaded but long-lived projects are more resilient over time.

HAZARD RATE:
DEFAULT RATE CONDITIONAL ON SURVIVAL
GEMs Private Lending Portfolio, 1994-2024



Note: Over the full 25-year loan-age horizon covered in the GEMs sample (1994–2024), infrastructure contracts exhibit a higher cumulative default rate than other sectors (19.4% versus 14.8%).

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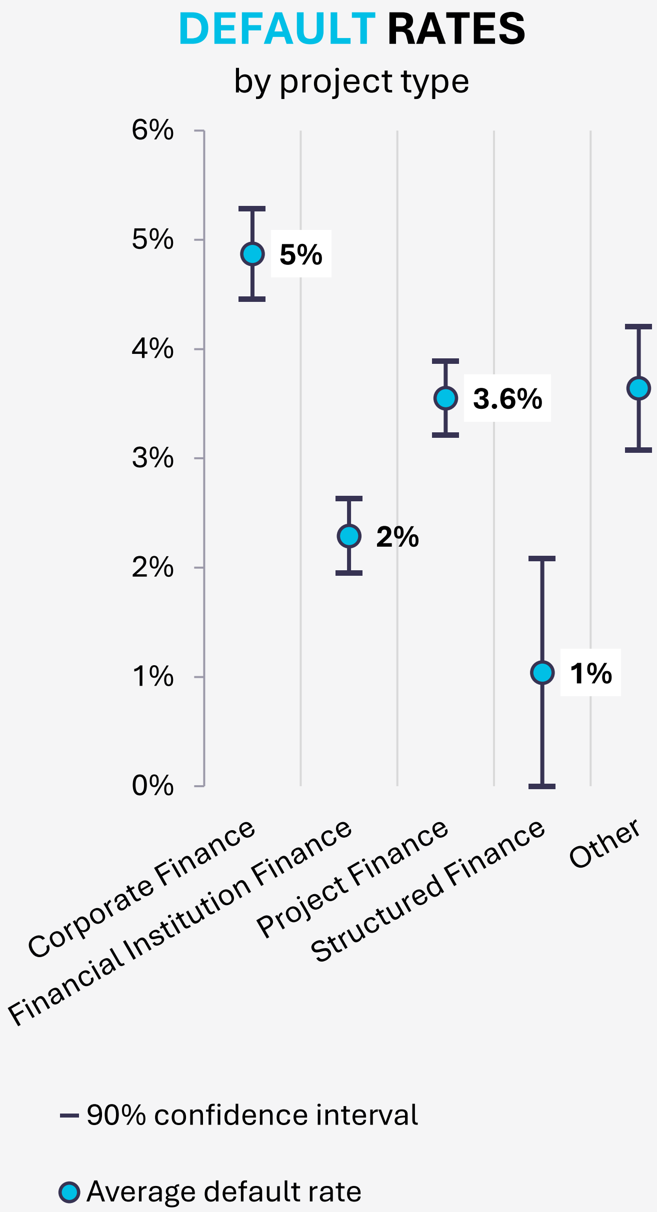
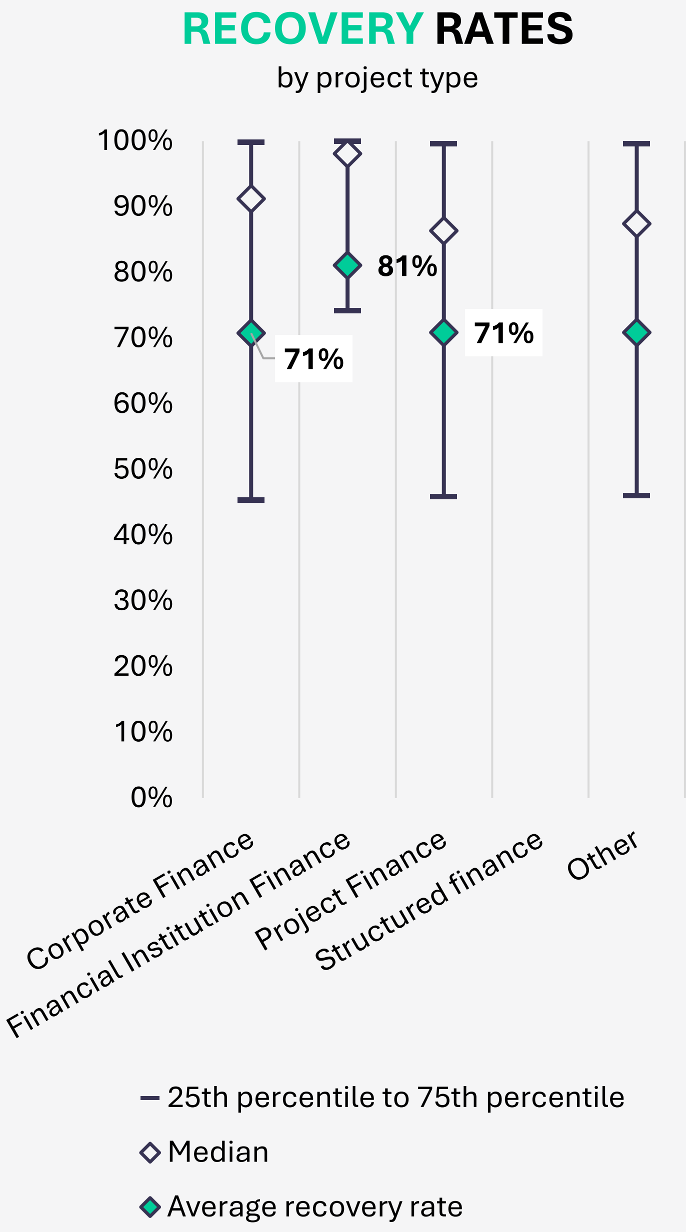
Project Insights

Which type of projects have stronger credit performance?

- Default rates lowest in **structured finance (1%)**.
- Defaults highest in **corporate finance (approx. 5%)** and **project finance (3.6%)**, but recoveries strong at **71%.**





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Resilience of emerging markets when partnering with MDBs/DFIs

Diversification dividend

- EMDEs have defied expectations in global crises, **showing stable recoveries across regions**, even in low-income countries.
- With **low correlation to advanced economies**, EM assets **reduce portfolio risk** and strengthen long-term investment resilience.

The role of local economies

- **Local currency financing** reduces exchange rate risks and strengthens domestic markets.
- GEMs data shows shifting domestic capital to private sector investments drives **job creation** and **economic growth.**

Competitive returns – the IFC experience

- Early analysis from IFC's loan portfolio suggests **returns outperform some key benchmarks**. More return analysis forthcoming by IFC.
- Analysis of IFC's **equity portfolio shows overperformance** vs S&P500 and MSCI Emerging Market indices (Cole et al., 2025, Moelders and Salgado, 2025)

A new EMDE narrative

- GEMs dispels the myth of excessive risk, providing a **data-backed case** for EMDE resilience, especially when investing alongside MDBs/DFIs.
- Investors can use GEMs to uncover **counter-cyclical opportunities** and mitigate global shocks.

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Why Invest in Emerging Markets with MDBs/DFIs?

A Paradigm Shift in Risk Perception:

- GEMs data reveals that **emerging markets are less risky** than commonly perceived.
- Default rates are comparable corporates in advanced economies, and recovery rates often **outperform global benchmarks.**

Empowering Smarter Investments:

- GEMs provides **granular insights** by region, sector, country, income group, project type, contract size, currency and many other cross-cuts.
- Investors can make **data-driven credit risk management** decisions based on this granularity.

Driving Impact and Returns:

By leveraging GEMs data, investors can:

- **Diversify portfolios** to mitigate global economic shocks.
- **Mobilize capital for** private sector growth.
- **Achieve competitive returns** while managing credit risks and advancing sustainable development goals (SDGs).

A Call to Action:

- Collaborating with MDBs and DFIs provides access to **local expertise, advisory services, and active project supervision.**
- Partner with MDBs and DFIs to **unlock untapped opportunities** in emerging markets and **drive impactful investments.**

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GEMs Secretariat
gems@eib.org

Access GEMs Statistics

GEMs website
www.gemsriskdatabase.org

World Bank Group’s Open Data Portal
https://data360.worldbank.org/en/dataset/IFC_GEM

Bloomberg Terminal
Search "GEMs" on DSET <GO>

GEMs Webtool
Member institutions have access to their own data only and can calculate credit risk statistics based on their own data, the rest of Consortium data or on data as a whole. They utilize the statistics to calibrate models and inform investment decisions.

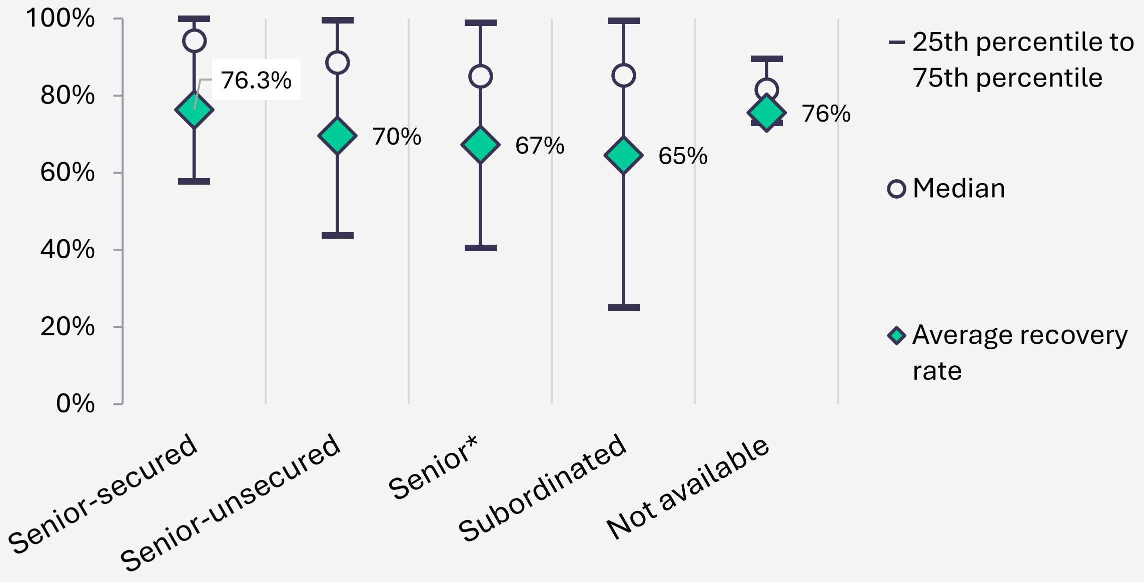
ANNEX
Other New Data Dimensions

Which projects have stronger credit performance?

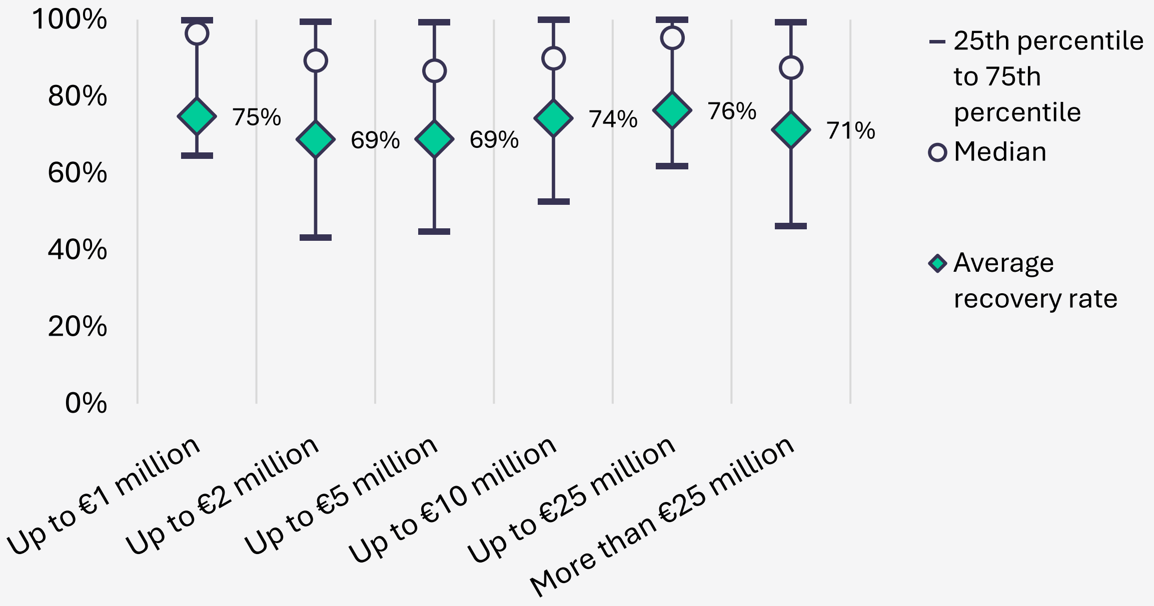
Senior-secured instruments have highest average recovery rate (**76.3%**), reflecting strong collateral backing.

Recovery rates across different contract sizes relatively uniform, indicating that contract size does not affect recovery.

RECOVERY RATES **BY SENIORITY**



RECOVERY RATES **BY CONTRACT SIZE**



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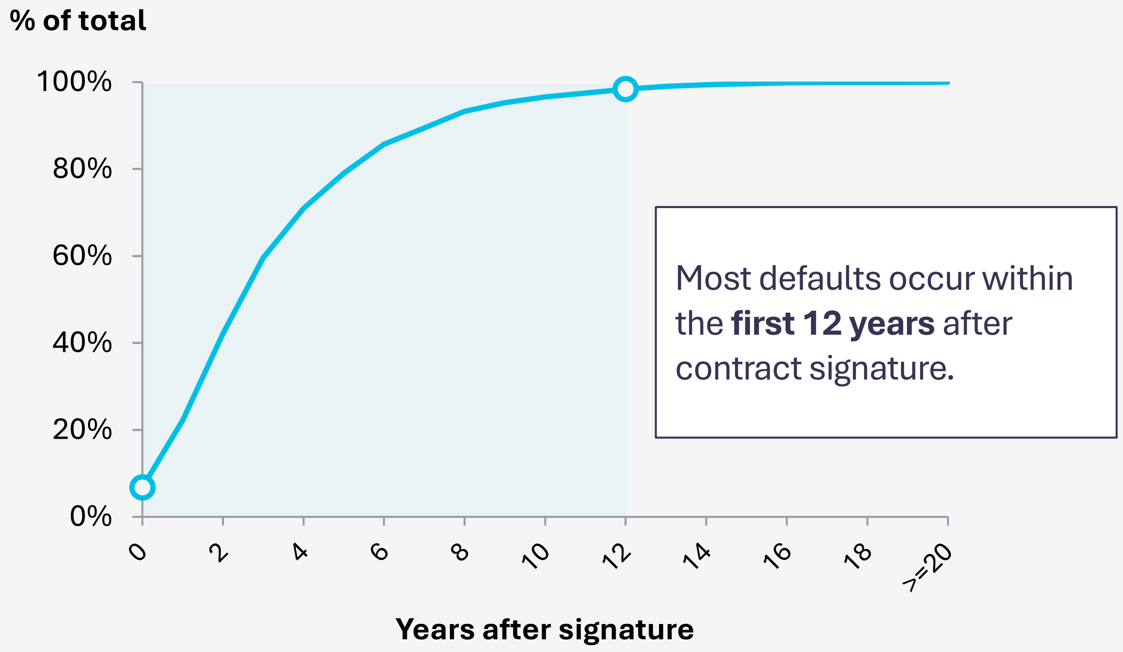
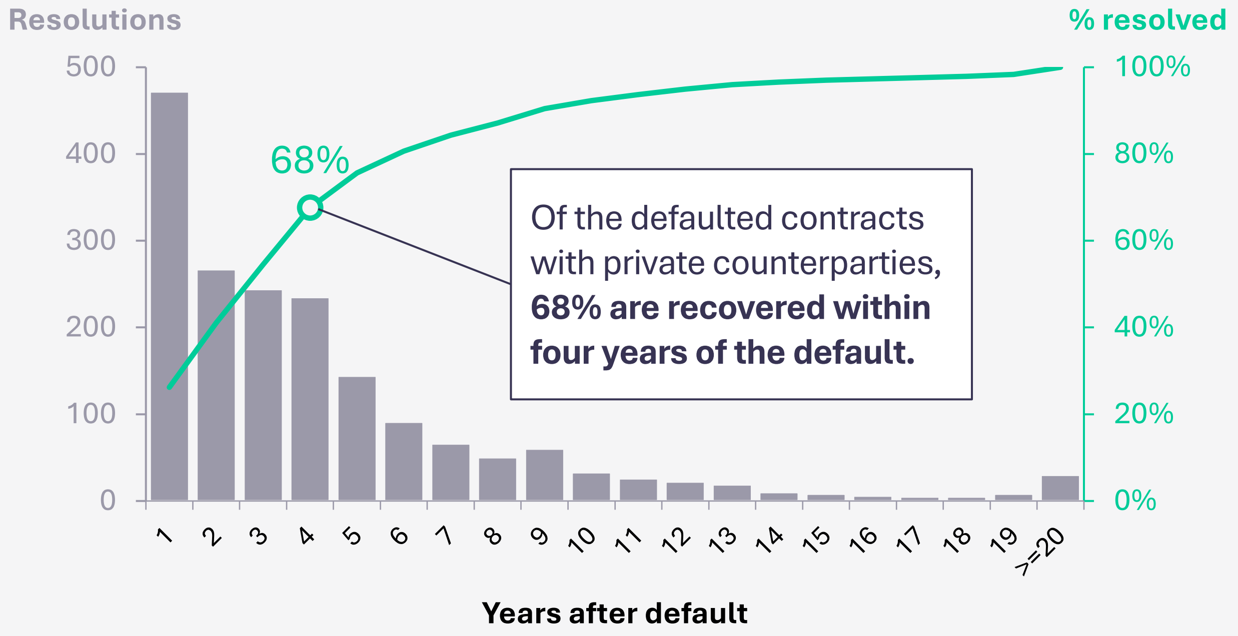
What do we know about time to default and resolution?

TIME TO DEFAULT



TIME TO RESOLUTION OF DEFAULTS



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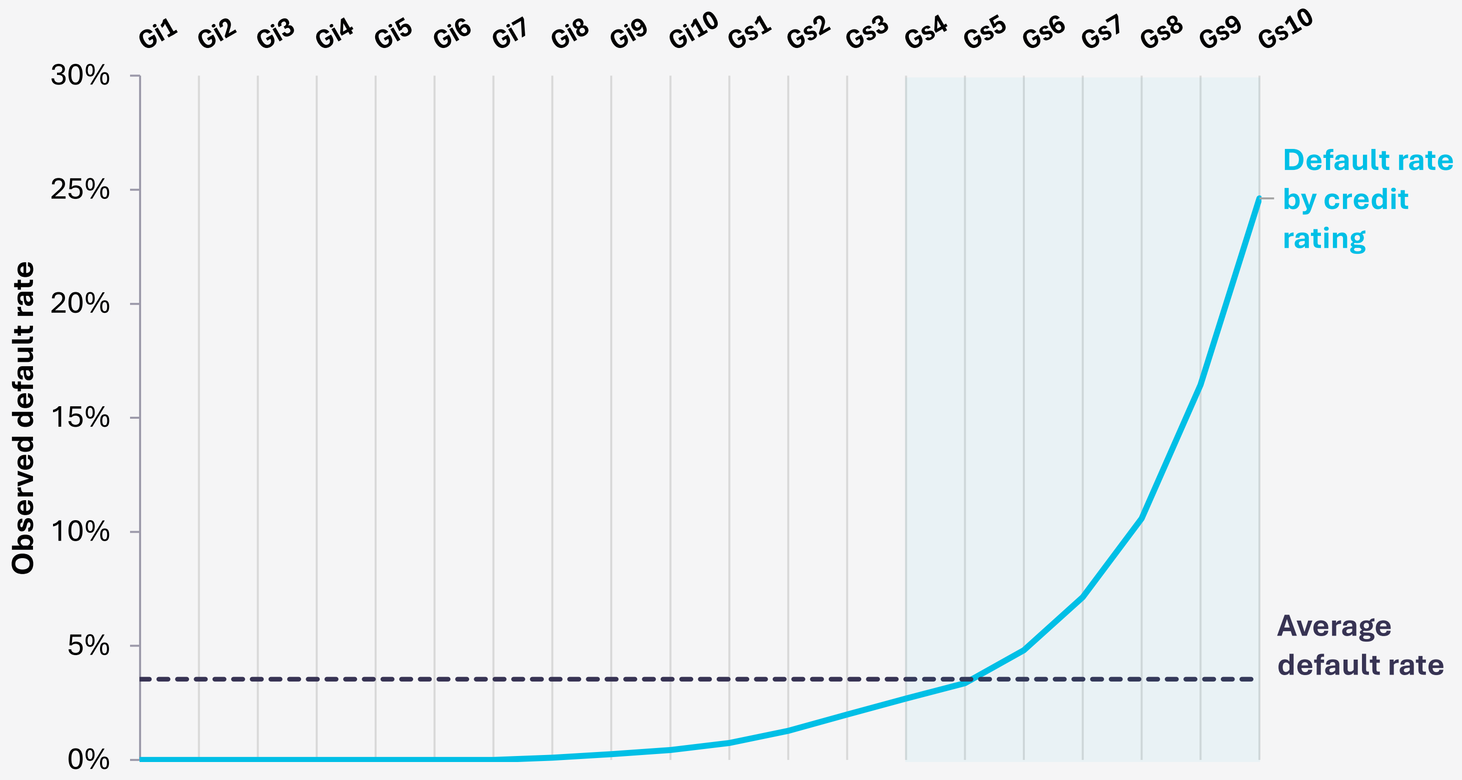
Which projects have stronger credit performance?

One-year default rates increase steadily as credit ratings deteriorate, with a rise beginning at GEMs rating level Gs4 and peaking at Gs10

ONE YEAR DEFAULT RATES BY CREDIT RATING



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